

Transmission Services
Avista Corporation
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September 7, 2006

Magalie Roman Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E., Room 1A
Washington, DC 20426

RE: *Avista Corporation, Docket No. ER06-_____*
Revisions to Open Access Transmission Tariff, FERC Electric Tariff Volume No. 8

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Part 35 of the Federal Energy Regulatory Commission's ("Commission") Regulations, 18 C.F.R. Part 35 (2006), Avista Corporation ("Avista") hereby submits for filing originals and six copies each of revisions to Avista's Open Access Transmission Tariff, Volume No. 8 ("Tariff")¹. The filing consists of two revised and two new original sheets revising terms and conditions for two Ancillary Services (Schedule 3 – Regulation and Frequency Response Service and Schedule 4 – Energy Imbalance Service), a series of revised and original sheets incorporating a revised standard form of Network Integration Transmission Service Agreement, and nineteen revised sheets incorporating a revised form of Network Operating Agreement. All proposed revisions are to incorporate the necessary terms and conditions for Avista to provide Network Integration Transmission Service to the Bonneville Power Administration ("Bonneville") under recently filed Service Agreements [see Docket No. ER06-436-001] and to any subsequent Network Customers. Avista respectfully submits that the proposed revisions to the Tariff are consistent with, and/or *superior to*, the current terms and conditions of the Tariff. Avista respectfully requests that the Commission accept the attached revised Tariff sheets with an effective date of November 9, 2006.

¹ The Commission accepted the currently applicable version of Avista's Tariff for filing in Docket No. ER06-422-000 in a letter order dated February 8, 2006 [Compliance with *Interconnection for Wind Energy*, Order No. 661-A, 70 Fed. Reg. 75005 (Dec. 12, 2005), 113 FERC ¶ 61,254 (2005); *see also Interconnection for Wind Energy*, Order No. 661, 70 Fed. Reg. 34993 (June 16, 2005), FERC Stats. & Regs. ¶ 31,186 (2005) (Final Rule)].

BACKGROUND AND REASON FOR FILING

Avista has historically provided transmission service to Bonneville under a pre-Order 888 agreement, the General Transfer Agreement (“GTA”) between Avista and Bonneville (Avista Rate Schedule FERC No. 105), which expired on December 31, 2005. On December 30, 2005, Avista submitted an unsigned *pro forma* Network Integration Transmission Service Agreement (“NITSA”) with Bonneville, to be effective January 1, 2006, while further negotiations were conducted to convert from service under the GTA to Network Integration Transmission Service under the Tariff. Avista and Bonneville completed negotiations over a form of NITSA and a form of Network Operating Agreement (“NOA”) to implement Network Integration Transmission Service to Bonneville’s wholesale utility customers under the Tariff and, on June 9, 2006 Avista amended its filing to include twelve non-conforming NITSAs and NOAs with Bonneville, requesting an effective date of January 1, 2006 for each agreement. Avista also indicated that, with the Commission’s acceptance of the non-conforming agreements, Avista would file proposed revisions to the Tariff in the future to incorporate the proposed changes to the NITSA, NOA and applicable Tariff sections. On August 8, 2006, the Commission issued a notice of deficiency to Avista requesting additional information, including: (i) a justification of each proposed provision in the NITSAs and NOAs that deviates from Avista’s Tariff, and (ii) an explanation why Avista had not already filed proposed changes to its Tariff and why any delay in such a filing is not unduly discriminatory during the interim.

Concurrent with this filing, Avista is submitting its response to the Commission’s notice of deficiency in Docket No. ER06-436-002. By the submittal of the proposed revisions to the Tariff in this filing, it is Avista’s intent to assure that any prospective Network Customer might be able to obtain service from Avista under the same basic terms and conditions for network service offered to Bonneville. By submitting these proposed revisions concurrent with the Commission’s review of Avista’s response in Docket No. ER06-436-002, Avista intends to establish that there would be no opportunity for undue discrimination as between the service offered to Bonneville and service offered to any prospective Network Customer. In order to focus on the Tariff issues immediately at hand with respect to related Docket No. ER06-436-002, Avista is filing only proposed revisions to the Tariff that are directly related to the implementation of Network Integration Transmission Service.

Avista is just now proposing these revisions to the Tariff because Avista is just now implementing Network Integration Transmission Service under the Tariff for the first time. While Attachment I to Avista’s Tariff lists five prior Network Customers, Bonneville becomes the first *true* Network Customer of Avista. The five listed prior customers under Attachment I are: (i) an erroneous listing of “The Washington Water Power Company” for a non-existent service agreement that was erroneously filed and then withdrawn in response to the Commission’s omnibus order in Allegheny Power System, Inc. et. al., 80 FERC ¶ 61,143 (1997) [Avista Docket No. OA96-162-004], and (ii) those retail customers of Avista who took service under long-expired experimental direct access programs in the State of Washington. Included in Avista’s amended filing in Docket No. ER06-436-002, submitted concurrent with this filing, is a revised Attachment I to Avista’s Tariff reflecting the fact that Bonneville is the only current Network Customer of Avista.

As Avista and Bonneville began to address the conversion from service under the GTA to Network Integration Transmission Service under the Tariff, it became readily apparent that the forms of agreements attached to Avista's Tariff would be woefully inadequate to effectively provide for the implementation of network service under the Tariff. The proposed new standard forms of NITSA and NOA are the result of negotiations with Bonneville as well as Avista's preparation for prospective future Network Customers. The proposed revisions are in the following four areas:

1. Incorporation of an alternative billing determinant for Schedule 3 – Regulation and Frequency Response Service to allow the Transmission Customer to mitigate potential costly metering costs under this rate schedule;
2. More flexible and less punitive terms and conditions for Schedule 4 – Energy Imbalance Service;
3. A revised standard form of Network Integration Transmission Service Agreement (Attachment F); and
4. A revised standard form of Network Operating Agreement (Attachment G).

PROPOSED REVISION TO RATE SCHEDULE 3 – REGULATION AND FREQUENCY RESPONSE

Second Revised Sheet No. 63 incorporates a more flexible alternative billing determinant approach for Regulation and Frequency Response for the benefit of Transmission Customers. While the current billing determinant approach in Rate Schedule 3 [accepted by the Commission in Docket No. OA96-162-001] provides an effective means to determine a Transmission Customer's impact on the Transmission Provider's system related to regulation and frequency response, this approach requires the installation of metering that can monitor and record ten-minute integrated intervals. In certain instances this approach would be absolutely necessary (e.g. for a point of delivery serving a large fluctuating load such as an arc furnace). In the case of Bonneville's conversion from service under the GTA to Network Integration Transmission Service, new equipment would need to be installed at over one-hundred metering points at Bonneville's Points of Delivery. As in the past, Avista wishes to work cooperatively with its Transmission Customers and, in those cases where the load characteristics do not necessitate the need for ten-minute integrated demand recording, Avista will agree to the simplified "surrogate" approach added to Rate Schedule 3. Note that the Commission has previously approved this same alternative approach, using a billing determinant based upon 2% of the Transmission Customer's monthly peak load, for Avista's customers [see Docket Nos. ER96-302-000 and ER98-1676-000].

By providing additional flexibility that can benefit a Transmission Customer, Avista respectfully submits that this proposed revision is both consistent with, and *superior to*, Avista's current Tariff. Accordingly, Avista respectfully requests that the Commission accept Second Revised Sheet No. 63.

PROPOSED REVISION TO RATE SCHEDULE 4 – ENERGY IMBALANCE SERVICE

Second Revised Sheet No. 64 and Original Sheet Nos. 64A and 64B incorporate proposed revisions to Schedule 4 – Energy Imbalance Service. The revisions provide a superior approach to Energy Imbalance Service providing more flexible and forgiving terms and conditions to remove the “100 mills/kWh penalty” for most imbalance amounts outside of the deadband. While these revised provisions were negotiated with Bonneville in association with the conversion of historical transfer service under the GTA to Network Integration Transmission Service, by these proposed changes to Schedule 4 Avista shall offer these superior terms and conditions to all Transmission Customers taking Energy Imbalance Service. The proposed revisions to Energy Imbalance Service are as follows:

- At the Transmission Customer’s election, imbalance amounts within the “deadband” or “Deviation Band 1” can be settled via physical return of energy or via financial settlement. This provides a more flexible approach for the Transmission Customer.
- Three deviation bands are defined, replacing the two deviation bands under the pro forma tariff approach. The new deviation bands are defined as follows:
 - Deviation Band 1 = less than or equal to $\pm 1.5\%$ or ± 2 MW
 - Deviation Band 2 = outside of Band 1 and less than or equal to $\pm 7.5\%$ or ± 5 MW
 - Deviation Band 3 = outside of Band 2This three-tiered approach is similar to that offered by Bonneville in its transmission tariff and similar to that being contemplated by the Commission in its recent Notice of Proposed Rulemaking [see Preventing Undue Discrimination and Preference in Transmission Service, Docket Nos. RM05-25-000 and RM05-17-000, paragraphs 238-247].
- The 100 mills/kWh “penalty” was removed for negative deviation amounts outside the pro forma deadband of 1.5% or 2 MW but yet still within Deviation Band 2. The 100 mills/kWh “penalty” charge now only applies to negative deviation amounts in Deviation Band 3, or amounts outside a band of 7.5% or 5 MW of the scheduled amount. This eliminates a significant “penalty” risk for the Transmission Customer, yet maintains the penalty for significant negative deviation amounts (greater than 7.5% or 5 MW) to provide the necessary disincentive to keep a Transmission Customer from leaning on the Transmission Provider’s system during peak hours where real-time prices may exceed heavy-load-hour index prices.
- A defined term for an “Hourly Pricing Proxy” was developed providing both Avista and the Transmission Customer a commonly-recognized reference in settling any deviation amounts outside of Deviation Band 1. Using a defined

Hourly Pricing Proxy significantly reduces contract administration costs for both parties.

In summary, the proposed revisions provide the Transmission Customer greater flexibility in its scheduling practices by reducing the applicability of the 100 mills/kWh penalty and providing the means for the customer to elect to financially settle imbalance amounts within Deviation Band 1. While the three-tiered approach provides such greater flexibility for the Transmission Customer, the pricing provisions of Deviation Band 3 maintains the necessary disincentive for the customer to lean on the transmission provider's control area and resources during certain operating conditions.

By providing additional flexibility that can benefit a Transmission Customer while maintaining necessary protections for the Transmission Provider, Avista respectfully submits that these proposed revisions are consistent with, and *superior to*, Avista's current Tariff. Accordingly, Avista respectfully requests that the Commission accept Second Revised Sheet No. 64 and Original Sheet Nos. 64A and 64B.

PROPOSED REVISION TO STANDARD FORM OF NETWORK SERVICE AGREEMENT

Second Revised Sheet Nos. 83, 84, 85, 85A, 86, 87, 87A, 88, 89, Original Sheet No. 89A, and Second Revised Sheet No. 90 incorporate a number of revisions to the standard form of NITSA in order to implement Network Integration Transmission Service under the Tariff and to provide flexibility for the Transmission Customer in certain areas. As noted above, Bonneville becomes the first ever third-party Network Customer of Avista under the Tariff. Accordingly, the proposed revisions represent the first effort by Avista and a prospective Network Customer to develop the necessary contractual provisions to effectively implement Network Integration Transmission Service under the Tariff. The following describes the nature of these proposed revisions:

- Section 2 – The current form of NITSA unnecessarily attaches the Tariff as an exhibit. In part to save paper, the Tariff has been removed as an exhibit to the NITSA and instead is formally incorporated by reference into the NITSA in Section 2.1. The remaining exhibits are incorporated into the NITSA in Section 2.2.
- Section 3 – Revisions to this section provide greater clarity and additional time for the Transmission Customer related to its cancellation rights.
- Section 4.2 – The current form of NITSA does not accommodate the potential use of non-transmission facilities in conjunction with Network Integration Transmission Service. Avista understands that the Commission asserts jurisdiction over transfer service over low-voltage substation and distribution facilities to facilitate wholesale delivery of electric power. For example, Avista has historically provided transfer service over low-voltage substation and distribution facilities to Bonneville under the GTA, Avista's Rate Schedule FERC

No. 105. Since it is Avista's understanding that the charges for transfer service across such facilities are under the Commission's jurisdiction, Avista has provided for such charges in the NITSA. Avista submits that the non-rate terms and conditions for such service are appropriately under the Tariff, while Avista recognizes that separate cost-support must be provided to substantiate charges for such service in the event they are included in a NITSA. From an administrative standpoint, it is not clear to Avista what differing non-rate terms and conditions might be applicable to transfer service across such facilities that might require an entirely separate service agreement. Accordingly, Avista has included provision for such charges, if applicable, in its revised standard form of NITSA. Should the Commission determine that transfer service across low-voltage substation and distribution facilities need to be provided for pursuant to a separate service agreement from the NITSA, Avista hereby agrees that it will comply with such determination by seeking to amend the twelve NITSAs with Bonneville and develop twelve new service agreements to provide for such service and applicable charges.

- Section 4.3 – Consistent with what the Commission has accepted in other NITSAs [see Idaho Power Company, 102 FERC ¶ 61,351], a new Section 4.3 provides for an adjustment to the transmission billing demand at a given Point of Delivery should the Transmission Customer persistently violate power factor requirements at such Point of Delivery. It should be noted that this is a penalty adjustment to the transmission demand at a Point of Delivery reflecting the *additional transmission capacity used by the Transmission Customer* to provide such reactive power to the Point of Delivery. It is not a rate or charge for any such reactive power provided by Avista.
- Sections 5, 6, 7 and 8.2 – Non-substantive revisions to these sections add additional clarity to the NITSA.
- Section 8.5 – Avista and Bonneville desired to provide clarity with respect to certain assignment principles. Recognizing that Bonneville's wholesale federal power customers may at some point wish to procure Network Integration Transmission Service directly from Avista, both Bonneville and Avista acknowledged that a number of technical issues (e.g. the use of Bonneville's existing metering and any scheduling issues related to the melding of contract network resources and physical network resources) would need to be addressed in order to make the transition under any such assignment. Avista's proposed revisions provide for each party's qualified consent to such assignment, providing necessary clarity for the NITSAs executed with Bonneville as well as any future NITSAs with prospective Network Customers.
- Exhibit 1 – Monthly Transmission Charge – Per Commission requirements, past load history cannot be used to establish the rolling twelve-month averages used in the calculation of the monthly transmission charge for new Network Integration

Transmission Service [see Florida Power & Light Company, 87 FERC ¶ 81,149 (Docket No. ER99-723-001)]. These revisions clarify how Avista will calculate each monthly charge during the first twelve months under the NITSA for a Network Customer whose load has not yet been served via Network Integration Transmission Service. For the benefit of both the Transmission Provider and the Transmission Customer it was felt to be more appropriate to provide written clarification in the NITSA as to how Commission policy would be implemented in this area. Should the Commission determine that this clarification best be incorporated not in the standard form of NITSA but incorporated into applicable text in Section 1.18 and Section 34 of the main body of the Tariff, Avista hereby stipulates that it would agree to such an approach.

- Exhibit 1 – Power Factor Penalty Adjustment – Per Section 4.3 of the NITSA, this portion of Exhibit 1 outlines the methodology of adjusting the transmission demand applicable to a given Point of Delivery in the event such Point of Delivery demonstrates continued violations of the applicable power factor criteria. Note that Avista cannot make such an adjustment to the transmission demand unless we have provided prior notification to the Transmission Customer, thereby providing the Transmission Customer the opportunity to provide an operational remedy to avoid such adjustment. Again, the Power Factor Penalty Adjustment is not a rate or charge, but a penalty adjustment to the transmission demand at a Point of Delivery reflecting the *additional transmission capacity used by the Transmission Customer* to provide such reactive power to the Point of Delivery. Again, this is consistent with what the Commission as approved in other cases [see Idaho Power Company, 102 FERC ¶ 61,351, (Docket Nos. ER03-487-000 and ER03-488-000)]
- Exhibit 1 – Losses – This section provides for three items related to the provision of losses:
 - The specification of loss factors associated with low-voltage substation and distribution facilities, if any;
 - Provisions related to the physical return of losses. In Bonneville’s case, both parties agreed that the most effective and administratively least-cumbersome means to account for losses for Network Integration Transmission Service is to provide for concurrent loss return. All loss factors associated with each metered quantity are known and identified by both parties prior to pre-schedule and can be included in the transmission customer’s pre-scheduling activities and included in the after-the-fact accounting associated with each metered quantity. The means of concurrent loss return is recognized by both Avista and Bonneville as the most administratively efficient means by which to account for the physical return of losses; and
 - Provision for the financial settlement of losses per the Transmission Customer’s election. This provides greater flexibility for the Transmission Customer.

Avista submits that the proposed revisions are *superior to* Avista's current Tariff in that they provide for greater clarity and more flexible terms and conditions for prospective Network Customers. Should the Commission accept Avista's revised sheets, then all prospective Network Customers might be able to obtain service under the same basic terms and conditions as those offered in the NITSAs executed with Bonneville (filed in Docket No. ER06-436-001). Avista respectfully requests that the Commission accept Second Revised Sheet Nos. 83, 84, 85, 85A, 86, 87, 87A, 88, 89, Original Sheet No. 89A, and Second Revised Sheet No. 90.

PROPOSED REVISION TO STANDARD FORM OF NETWORK OPERATING AGREEMENT

Second Revised Sheet Nos. 91 – 109 incorporate proposed revisions to the standard form of NOA. This proposed revised form of NOA is far superior to the form of "Interconnection and Network Operating Agreement" currently attached to Avista's Tariff. When Avista filed its Tariff in 1996, the form of agreement that Avista developed and included as its "Interconnection and Network Operating Agreement" primarily pertained to the physical interconnection of electric facilities and did not in any way address the many issues associated with the implementation of Network Integration Transmission Service, as referenced in Section 35.2 of the Tariff. Avista, at that time, had no Network Integration Transmission Service customers and so had not worked through any issues related to network service. This prior form of agreement developed by Avista and attached to the Tariff (note that this is not a *pro forma* agreement developed by the Commission) *is of no value* in implementing network service under the Tariff. With Bonneville becoming Avista's first true Network Customer it is necessary to develop a completely new NOA to provide for the technical and operational practices necessary to implement Network Integration Transmission Service under the Tariff. Many of the provisions in the NOA were taken from other such agreements in existence within the Pacific Northwest, including Bonneville's own form of agreement attached to its open access transmission tariff.

In converting from historical transmission service under the GTA to Network Integration Transmission Service, it was necessary to include some specific elements in the NOA with Bonneville. Accordingly, these elements will be necessary for any future Network Customer of Avista. Among these are terms and conditions that provide for:

- Clarity with respect to the inherent differences relating to redispach of resources connected directly with the transmission provider's system, resources connected to third-party systems, and contract resources that by their very nature are not a physical resource able to be dispatched to affect physical power flows on the transmission system (see Section 7 of the NOA).
- Necessary scheduling protocols associated with a Transmission Customer's designated contract Network Resources (see Section 8 of the NOA).
- Clarity with respect to metering requirements and the sharing of metering data. In the case of converting from service under the GTA, it is recognized that the meters historically used for transmission service to Bonneville's wholesale federal